

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6025

BILL NUMBER: HB 1018

NOTE PREPARED: Sep 30, 2012

BILL AMENDED:

SUBJECT: Financial Institutions Tax Rate Reduction.

FIRST AUTHOR: Rep. Messmer

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill reduces the Financial Institutions Franchise Tax rate over four years, from 8.5% for taxable years beginning before January 1, 2014, to 6.5% for taxable years beginning on or after January 1, 2017.

Effective Date: July 1, 2013.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the tax rate changes. The DOR's current level of resources should be sufficient to implement these changes.

Explanation of State Revenues: *Summary* - The bill reduces the financial institutions tax (FIT) rate from 8.5% to 6.5% over four years beginning in CY 2014. The table below summarizes the estimated annual revenue loss from the tax rate reductions.

Fiscal Year	Revenue Loss
2013	Minimal
2014	\$2.4 M
2015	\$7.1 M
2016	\$11.8 M
2017	\$16.5 M
2018	\$18.8 M

The revenue loss could begin in FY 2013 as some financial institutions reduce estimated tax payments. However, the impact in FY 2013 should be minimal since approximately 85% of the financial institutions paying roughly 96% of the tax liability are calendar year filers. The table below summarizes the phase-in of the FIT rate reduction.

Calendar Year	Tax Rate
2013	8.5%
2014	8.0%
2015	7.5%
2016	7.0%
2017 and after	6.5%

Background Information - Revenue from the FIT is distributed to local units and to the state General Fund. Local units are annually guaranteed revenue from the FIT. The amount guaranteed to a local unit is equal to the difference between: (1) the amount that was received by the taxing unit in 1989 under financial institutions taxes that were repealed and replaced by the FIT and (2) the amount received in the current year by the taxing unit from property taxes attributable to personal property of banks. FIT distributions to local units occur throughout the fiscal year until the guarantee is met. The local guarantee historically totals approximately \$45 M. The estimate of state revenue loss assumes the residual FIT revenue distributed to the state General Fund will total \$35 M annually, which is the historical average.

Once the rate reduction is fully phased in, annual FIT revenue could be at a level where in recessionary periods transfers from the state General Fund to local units might be required to pay the local guaranteed amounts. During recent economic downturns, FIT revenue has declined by an average of almost 21% from the historical average of about \$80 M per year. Once the rate reduction is fully phased in, it is estimated that annual revenue could potentially total about \$61.1 M. A cyclical revenue decline of 21% could potentially reduce this total down to about \$48.5 M, just above the amount required to pay the local guarantee.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: OFMA Income Tax databases, 2008.

Fiscal Analyst: Jim Landers, 317-232-9869.